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SUBJECT: FRIENDS OF DEMOCRATIC PAKISTAN TO TACKLE ENERGY
SECTOR

11. (SBU) Summary: In the first meeting of the Steering Committee on February 10, co-chairs Water and Power Secretary Shahid Rafi and Asian Development Bank Country Director Rune Stroem outlined the goals, membership and work plan for the Friends of Democratic Pakistan (FoDP) Energy Sector Task Force (ESTF). The Steering Committee agreed that the ESTF would prepare and present a diagnostic of Pakistan's power sector with short- and medium-term recommendations to the July FoDP Ministerial. The Steering Committee membership includes GOP representatives from the Ministries of Water and Power, Planning and Development and Foreign Affairs, WAPDA and PEPCO and FoDP representatives from the ADB, Islamic Development Bank, France, Germany, Japan and the United States. The Steering Committee will oversee the ESTF Secretariat energy experts provided by the ADB and FoDP member countries. Though the ESTF is only in its nascent phase, Post believes it is a worthy venture, as it will enhance donor coordination and, more importantly, provide a forum for donor nations to speak with one voice in pushing for GOP sectoral reforms. Post has selected an energy policy expert for the ESTF Secretariat who will be on board by mid-March. End Summary.

ESTF Membership and Modalities

12. (SBU) Assistance Coordinator and Econoff participated in the first Steering Committee meeting of the FoDP Energy Sector Task Force (ESTF) on February 10. The Steering Committee will meet periodically to oversee the work of the ESTF Secretariat -- a group of energy experts drawn from the Asian Development Bank (ADB) and FoDP member countries that is tasked to produce an energy sector diagnostic and short- and medium-term (three to five year) recommendations to improve Pakistan's energy sector for the FoDP Ministerial in July.

13. (SBU) Rune Stroem, ESTF Steering Committee co-chair and ADB Country Director, said the FoDP representatives were chosen based on two criteria: the provision of \$100 million in assistance to the energy sector and the secondment of a technical expert to the Secretariat. The FoDP representatives are the ADB (co-chair), Islamic Development Bank, France, Germany, Japan and the United States. Turkey

and Korea are providing technical experts to the Secretariat but are not represented on the Steering Committee.

14. (SBU) The GOP Steering Committee representatives are Secretary Water and Power Shahid Rafi (co-chair), Secretary Planning and Development Ashraf Hayat, Foreign Affairs Additional Secretary Abdul Basit, Water and Power Development Authority (WAPDA) Chairman Shakil Durrani, and Pakistan Electric Power Company (PEPCO) Managing Director Taheer Cheema. Asked about the absence of the Ministry of Finance from the list, especially given Finance's role in resolving the circular debt, Rafi responded that other ministries, such as Finance and Petroleum and Natural Resources, would be consulted as needed.

15. (SBU) Stroem noted that the ADB, Germany and Korea had already provided energy experts to the ESTF Secretariat and that the Islamic Development Bank, France, Japan and Turkey would provide experts soon. Post has selected an energy policy expert who will arrive in mid-March. The ADB will provide office space and administrative support for the technical experts.

Scope of the ESTF report

16. (SBU) The Steering Committee approved a draft outline for the ESTF report which includes a diagnostic on the financial performance and corporate governance of the gas and power sectors; progress to date on institutional reforms; the

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diversity of the power generation mix; and efforts to improve energy transmission and efficiency. The diagnostic would feed into an action plan for structural and regulatory reforms; corporate governance and financial controls; changes in the fuel mix for power generation; and investments in the sector. The report would also include a monitoring and evaluation plan for sector performance.

17. (SBU) MFA Additional Secretary Basit expressed concern that the ESTF report would provide a forum for FoDP members to place conditions on their assistance to Pakistan's power and gas sectors. Stroem and Rafi responded that the purpose of the report was to coordinate and align donor assistance with needed GOP reforms to improve the sectors in the next three to five years.

18. (SBU) Comment: The first Steering Committee meeting was basically a meeting about meetings, setting the framework for the real work to be done. Post believes that the Energy Sector Task Force, both in the Steering Committee and the working-level Secretariat, will provide a forum to improve donor coordination as well as a vehicle for donors to speak as one to push for GOP power sector reforms. The challenges to the gas and electricity sectors remain immense -- with the gas supply gap reaching 1.1 billion cubic feet per day (cf/d) when domestic consumption spikes in the winter, and the power generation gap exceeding 3,000 megawatts (MW) during peak summer demand. And power sector finances, even with tariff hikes in October 2009 and January 2010, continue to fall in the red. The Ministry of Finance estimates that up to \$1.2 billion in new intra-corporate "circular debt" has accrued since September 2009. Donor assistance has helped keep the sector chugging along, but the ESTF forum could at last provide us the leverage sufficient to move it into a sustainable direction. End Comment.

PATTERSON